

# Trust Land Management Division



## *FISCAL YEAR 2009 ANNUAL REPORT*

Department of Natural Resources and Conservation

# Trust Land Management Division

## Mission

**Manage the State of Montana's trust land resources to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land.**



**Contents**

Overview and History ..... 1

Division Overview ..... 6

Agriculture and Grazing Management..... 7

Forest Management ..... 9

Minerals Management..... 13

Real Estate Management..... 15

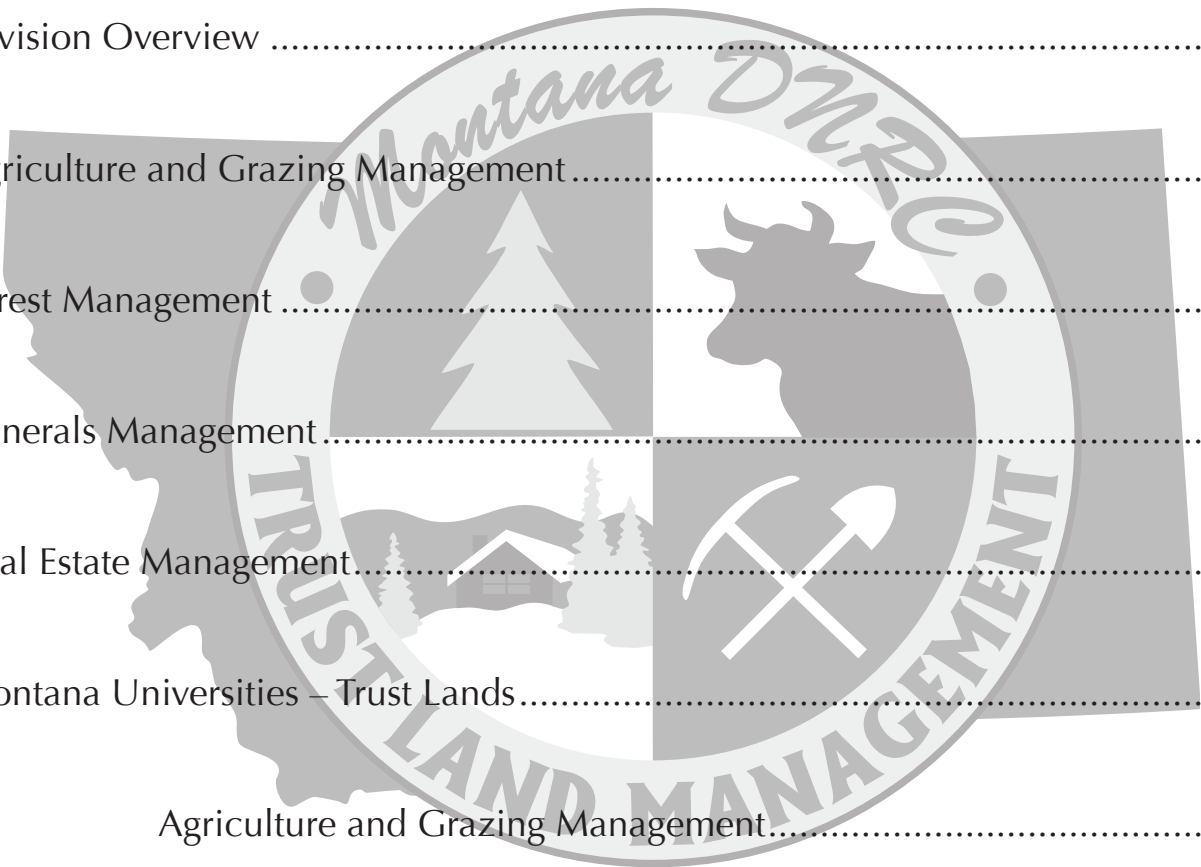
Montana Universities – Trust Lands..... 22

    Agriculture and Grazing Management..... 26

    Forest Management ..... 27

    Minerals Management..... 28

    Real Estate Management ..... 28



## Figures

Figure 1	Current Land Ownership (as of August 11, 2009) .....	1
Figure 2	Permanent Fund Balance.....	2
Figure 3	Distribution of Revenues from Common Schools Trust Lands .....	5
Figure 4	Ten-Year Net Revenue Summary .....	7
Figure 5	Barley and Wheat Production.....	8
Figure 6	Agricultural and Grazing Revenue.....	8
Figure 7	Timber Volume Sold and Harvested.....	9
Figure 8	Timber Revenue Generated .....	10
Figure 9	Total Mineral Revenue by Mineral Type.....	13
Figure 10	Oil and Gas Revenue (excluding Seismic Exploration).....	13
Figure 11	Coal Royalties .....	14
Figure 12	Real Estate Management Revenues.....	15
Figure 13	University System Acres by Trust FY 2009 .....	23

## Tables

Table 1	Funding Sources of Trust Land Administration .....	2
Table 2	Reconciliation of Revenues and Distributions .....	2
Table 3	Revenues by Trust FY 2009.....	3
Table 4	Five-Year Summary of Gross Revenue Generated by Activity .....	4
Table 5	FY 2009 Forest Improvement Fees Collected by Trust .....	10
Table 6	FY 2009 Forest Improvement Accomplishments Trust Land Summary .....	11
Table 7	FY 2009 Lease and License Revenues .....	15
Table 8	Land Sold by County - FY 2009.....	16
Table 9	Land Sold by Trust - FY 2009.....	16
Table 10	Tracts Acquired through Land Banking in FY 2009 .....	16
Table 11	Trust Land Surface Acreage by County and Trust FY 2009.....	17
Table 12	University System Original Grant Acreage.....	22
Table 13	University System Permanent Fund Balances FY 2005 – FY 2009.....	23
Table 14	Gross Revenue Generated by Activity for the University System FY 2009 .....	24
Table 15	University System Revenues by Trust FY 2009 .....	25
Table 16	Agriculture and Grazing Revenues .....	26
Table 17	University System FY 2009 Revenues and Production .....	26
Table 18	Timber Revenues FY 2006 – FY 2009 .....	27
Table 19	Timber Volume Harvested by Trust in Thousand Board Feet (MBF) .....	27
Table 20	Forest Improvement Fee Collections FY 2006 – FY 2009 .....	27
Table 21	Mineral Revenue FY 2006 – FY 2009 .....	28
Table 22	Mineral Revenues by Trust and Activity for FY 2009 .....	28
Table 23	Real Estate Management Revenue by Trust FY 2006 – FY 2009 .....	28



# Trust Land Management Division

*Managing the state of Montana's trust land resources to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land.*

## Overview

General background information on the Trust Land Management Division (TLMD) is available on the department's website: [www.dnrc.mt.gov/trust/](http://www.dnrc.mt.gov/trust/).

## History

By the Enabling Act approved February 22, 1889, the Congress of the United States granted to the state of Montana, for Common Schools support, sections 16 and 36 in every township within the state. Some of these sections had been homesteaded, some were within the boundaries of Indian reservations, and others had been disposed of before passage of the Enabling Act. Other lands were selected by the state in lieu of these lands.

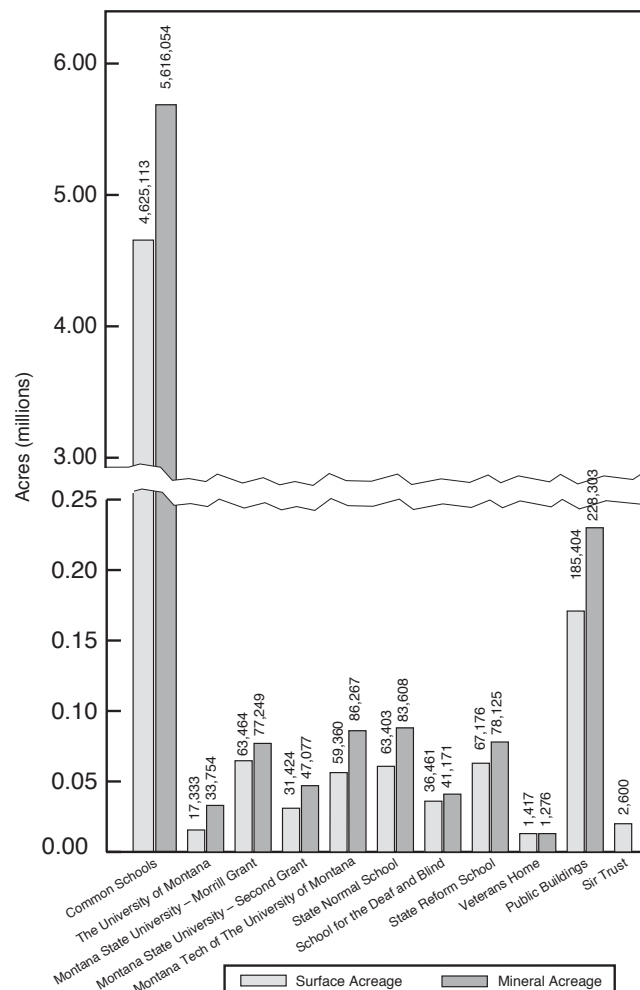
The Enabling Act and subsequent acts also granted acreage for other educational and state institutions, in addition to the Common Schools. The trust beneficiaries of these institutions include:

- The University of Montana
- Montana State University–Morrill Grant
- Montana State University–Second Grant
- Montana Tech of The University of Montana
- State Normal School (Montana State University–Billings and The University of Montana–Western)
- School for the Deaf and Blind
- State Reform School (Pine Hills)
- Veterans Home
- Public Buildings

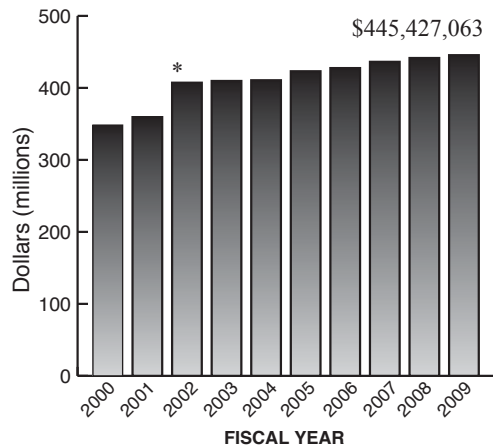
In FY 2007, 2,599.88 acres were donated by the Anton Sir Estate for school trust land. The donation is split between the School for the Deaf and Blind, the Montana Developmental Center, and the Montana State Hospital.

The total acreage (see Figure 1) has fluctuated through the years due to land sales and acquisitions. Surface acreage at the end of Fiscal Year (FY) 2009 totals more than 5.1 million acres; mineral acreage exceeds 6.2 million acres. Mineral acreage

**Figure 1**  
**Current Land Ownership**  
(as of August 11, 2009)



**Figure 2**  
**Permanent Fund Balance**



\*FY 2002 total includes \$46.4 million in coal trust loan proceeds, pursuant to Senate Bill 495 (2001 Legislature).

now exceeds surface acreage because the mineral estate has been retained when lands were sold.

### The Permanent Fund

The Enabling Act states that proceeds from the sale and permanent disposition of any of the trust lands, or part thereof, shall constitute permanent funds for the support and maintenance of public schools and the various state institutions for which the lands had been granted. The Montana Constitution provides that these permanent funds shall forever remain inviolate, guaranteed by the state of Montana against loss or diversion. These funds are often referred to as “nondistributable.” Figure 2 shows the Permanent Fund balance over the last 10 years. The balance of the Permanent Fund was \$445,427,063 for FY 2009.

### Other Revenues

Table 3 shows the gross distributable and nondistributable interest and income for each of the trust beneficiaries. In FY 2009 the division used a portion of trust land revenues to fund administrative appropriations as shown in Table 1.

**Table 1**  
**Funding Sources of Trust Land Administration**

Trust Administration Account (77-1-108, MCA) appropriation	\$4,599,200
Timber Sale Account (77-5-204, MCA) appropriation	4,031,694
Forest Improvement Fees (77-5-204, MCA) collects	868,511
Resource Development Account (77-1-604, MCA) collections	1,209,425
Recreational Use Account (77-1-808, MCA) collections	107,139
Commercial Leasing Account (77-1-905, MCA) collections	66,617
<b>Total</b>	<b>\$10,882,586</b>

**Table 2**  
**Reconciliation of Revenues and Distributions**

Gross distributable revenues	\$76,296,680
Gross nondistributable revenues	4,198,734
School Facility and Technology Fund	24,172,773
Forest Improvement	868,511
Land Banking Sale Proceeds	5,150,084
General Fund Revenues	171,142
Nonland grant Income and other revenues	109,575
<b>Total</b>	<b>\$110,967,499</b>

In addition to management activities on behalf of trust beneficiaries, the division generated other revenues and distributions in FY 2009. The five-year summary presented in Table 4 shows gross revenues of more than \$110 million for all division activities. Table 2 provides a reconciliation of other revenues and distributions from the Table 3 and Table 4 summaries.

Table 3 Revenues by Trust FY 2009									
Distributable Revenues		Gross				Commercial		Net	
Trust	Distributable Revenues	Resource Development	Timber Sale Account	Trust Admin Account <sup>(4)</sup>	Recreational Use Account	Leasing Account	Distributable Revenues		
Common Schools <sup>(1)(5)</sup>	\$69,796,621	\$1,129,406	\$2,900,512	\$4,401,029	\$96,177	\$54,400	\$61,215,097		
University of Montana	218,091	4,084	21	0	375	346	213,265		
MSU - Morrill Grant <sup>(3)</sup>	634,673	0	12,705	0	1,249	0	634,673		
MSU - Second Grant	1,181,006	16,576	82,897	0	654	1,289	1,079,590		
Montana Tech	1,119,733	23,789	7,265	0	1,233	5,092	1,082,354		
State Normal School	586,978	7,442	3,332	0	1,308	2,368	572,528		
School for the Deaf and Blind	380,755	5,201	0	0	772	956	373,826		
State Reform School	447,462	7,660	0	0	1,404	1,719	436,679		
Veterans Home	12,942	362	0	0	32	86	12,462		
Public Buildings	1,908,727	14,616	708,610	103,530	3,892	363	1,077,716		
Mt Developmental Center	4,847	145	0	0	21	0	4,681		
Mt State Hospital	4,847	145	0	0	21	0	4,681		
Total	\$76,296,682	\$1,209,426	\$3,715,342	\$4,504,559	\$107,138	\$66,619	\$66,707,552		
Nondistributable Revenues		Gross				Net		Permanent	
Trust	Nondistributable Revenues		Timber Sale Account	Trust Admin Account			Nondistributable Revenues		Fund Balance <sup>(2)</sup>
Common Schools	\$3,528,074		\$0	\$48,381			\$3,479,693	\$412,775,510	
University of Montana	1,001		0	156			845	1,523,365	
MSU - Morrill Grant <sup>(3)</sup>	55,369		0	8,644			55,369	3,927,042	
MSU - Second Grant	2,250		0	351			1,899	8,845,963	
Montana Tech	4,154		0	649			3,505	5,101,605	
State Normal School	9,970		0	1,556			8,414	6,093,459	
School for the Deaf and Blind	595,172		315,502	34,476			245,194	3,768,494	
State Reform School	2,744		850	428			1,466	3,374,619	
Veterans Home	0		0	0			0	17,006	
Total	\$4,198,734		\$316,352	\$94,641			\$3,796,385	\$445,427,063	
School Facility and Technology Fund									
	\$24,172,773						\$24,172,773		
Total	\$104,668,189	\$1,209,426	\$4,031,694	\$4,599,200	\$107,138	\$66,619	\$94,676,710	\$445,427,063	
(1) Includes Common Schools mineral royalties of \$4,401,029.									
(2) Trust balances reflect deposit activity by DNRRC only, and do not include valuation adjustments from investment activities by the Board of Investments.									
(3) MSU-Morrill Grant administrative costs of \$23,925 including BOI expenses were transferred to the appropriation from fund 02297 per House Bill 19.									
(4) Trust Land Admin Account reflects the FY09 Appropriation less \$800.00 Land Bank Nomination Fees.									
(5) Less 5% to permanent fund.									

(1) Includes Common Schools mineral royalties of \$4,401,029.

(2) Trust balances reflect deposit activity by DNRC only, and do not include valuation adjustments from investment activities by the Board of Investments.

(3) MSU-Morrill Grant administrative costs of \$23,925 including BOI expenses were transferred to the appropriation from fund 02297 per House Bill 19.

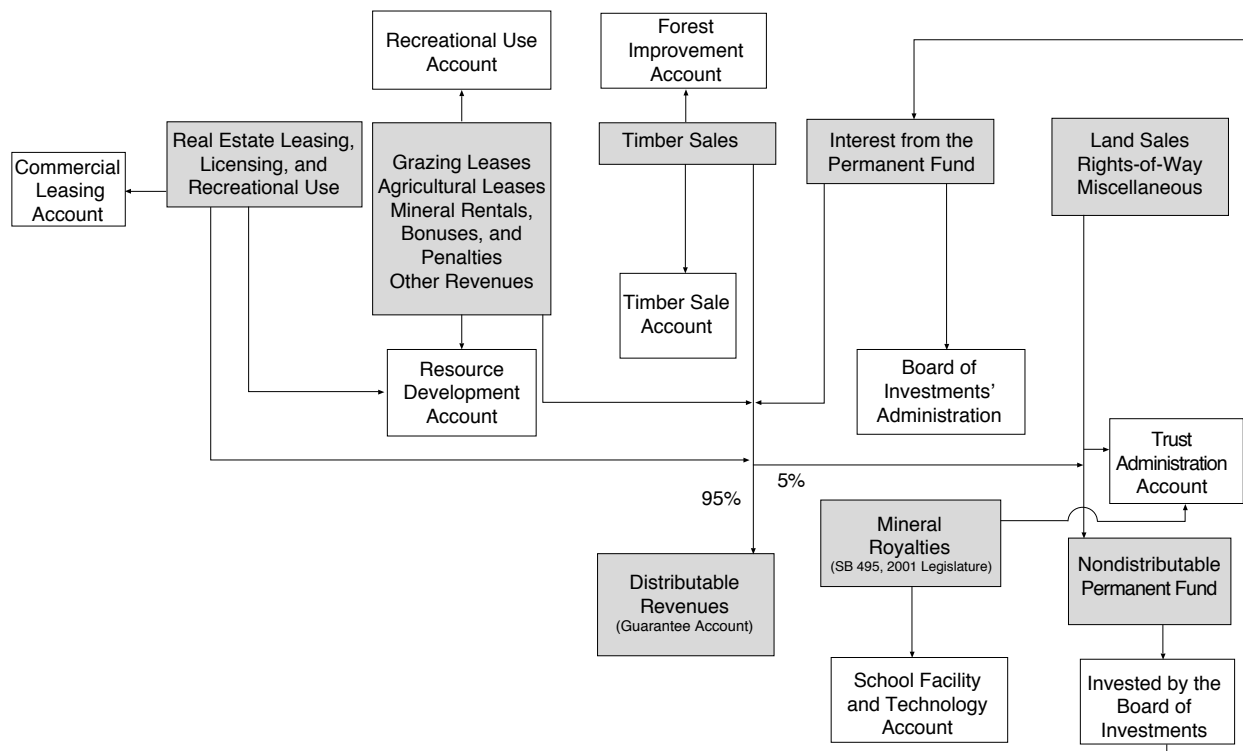
(4) Trust Land Admin Account reflects the FY09 Appropriation less \$800.00 Land Bank Nomination Fees.

(5) Less 5% to permanent fund.

**Table 4**  
**Five-Year Summary of Gross Revenue Generated by Activity**

<b>Activity</b>	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>
<b>Agriculture &amp; Grazing Management</b>					
Grazing Leases	\$6,566,134	\$6,984,191	\$7,872,625	\$7,098,951	\$7,163,795
Agriculture Leases	9,227,415	9,868,305	9,849,729	12,790,465	14,650,880
<b>Totals</b>	<b>\$15,793,549</b>	<b>\$16,852,496</b>	<b>\$17,722,354</b>	<b>\$19,889,416</b>	<b>\$21,814,675</b>
Recreational Use					
General Licenses	\$64,246	\$52,759	\$58,211	\$71,754	\$82,176
Conservation Licenses	916,806	881,276	915,888	874,245	922,613
Special Recreation Use Licenses	109,378	103,613	118,181	107,588	85,839
<b>Totals</b>	<b>\$1,090,430</b>	<b>\$1,037,648</b>	<b>\$1,092,280</b>	<b>\$1,053,587</b>	<b>\$1,090,628</b>
<b>Forest Management</b>					
Timber Sales	\$13,651,631	\$13,000,338	\$7,482,894	\$10,000,724	\$7,584,556
Forest Improvement Fees	2,924,052	2,875,277	1,316,404	1,098,577	868,511
<b>Totals</b>	<b>\$16,575,683</b>	<b>\$15,875,615</b>	<b>\$8,799,298</b>	<b>\$11,099,301</b>	<b>\$8,453,067</b>
<b>Minerals Management</b>					
Oil & Gas Revenues					
Rentals/Bonuses/Penalties	\$6,554,239	\$16,656,283	\$6,151,965	\$6,037,002	\$15,748,957
Royalties	12,546,647	21,377,566	20,408,064	25,240,047	19,949,394
Seismic Exploration	4,796	5,459	7,323	9,976	8,216
Aggregate Minerals					
Rentals/Bonuses	100	250	200	100	100
Royalties	227,171	417,794	163,047	174,196	206,962
Coal					
Rentals/bonuses	40,057	41,524	41,524	41,524	41,524
Royalties	4,239,865	4,179,503	3,729,473	5,865,071	7,840,866
Other Minerals					
Rentals/Penalties	25,584	32,295	55,661	81,215	51,171
Royalties	3,389	5,513	4,071	4,680	81,864
<b>Totals</b>	<b>\$23,641,848</b>	<b>\$42,716,187</b>	<b>\$30,561,328</b>	<b>\$37,453,811</b>	<b>\$43,929,054</b>
<b>Real Estate Management</b>					
Rights-of-way/Easements	\$1,068,335	\$1,075,914	\$6,574,068	\$2,113,540	\$349,720
Residential Leases/Licenses	1,024,125	1,129,768	1,288,897	1,439,506	1,579,671
Land Sales	25,797	0	10,913,599	2,781,630	5,150,084
Other Leases/Licenses					
Commercial		872,589	1,057,908	975,531	1,031,377
Conservation		94,098	92,241	101,034	92,837
Other				27,431	32,412
Navigable Rivers				4,000,300	4,171,650
<b>Totals</b>	<b>\$3,056,537</b>	<b>\$3,172,369</b>	<b>\$19,926,713</b>	<b>\$11,438,972</b>	<b>\$12,407,751</b>
<b>Other</b>					
Trust and Legacy Interest	\$28,375,978	\$24,850,054	\$26,475,417	\$25,289,682	\$22,779,175
Other Revenues	586,932	879,529	1,035,057	915,483	493,149
<b>Totals</b>	<b>\$28,962,910</b>	<b>\$25,729,583</b>	<b>\$27,510,474</b>	<b>\$26,205,165</b>	<b>\$23,272,324</b>
<b>TOTALS</b>	<b>\$89,120,957</b>	<b>\$105,383,898</b>	<b>\$105,612,447</b>	<b>\$107,140,252</b>	<b>\$110,967,499</b>

**Figure 3**  
**Distribution of Revenues from Common Schools Trust Lands**



## School Facility and Technology Account

The 2009 Legislature approved HB 152, which eliminated the Technology Acquisition and Depreciation Account and replaced it with the School Facility and Technology Account. This account will not only contain certain revenues from the sale of timber on Common Schools land, but mineral royalties and power site rental payments (distributable in FY 2009 to Base Aid, distributable to School Facility and Technology Account January 1, 2011), as defined in 20-9-516, MCA. In FY 2009, the TLMD generated \$701,348 from the sale of timber on Common Schools land (in excess of 18 mmbf), \$23,471,425 for mineral royalties. The account is managed by the Dept of Commerce.

## Senate Bill 495

The DNRC repaid the \$46.366 million coal trust loan in FY 2008. Cumulative interest paid was \$17.131 million, for a total loan cost of \$63.497 million. Common Schools mineral royalty revenues available in FY 2009 totaled \$23.471 million, which was deposited into the School Facility and Technology account. Deposits to this account totaled \$38.854 million at the fiscal year-end. The coal trust loan purchased \$138.895 million in future royalty revenues, of which \$125.304 million has now been generated and redirected pursuant to the provisions of Senate Bill 495 and subsequent legislation. The department anticipates the remaining \$13.591 million will be generated and redirected to the School Facility and Technology Account account by mid FY 2010.

Brian Schweitzer



Steve Bullock



Denise Juneau



Linda McCulloch



Monica Lindeen



## Distribution of Revenues

Each section of state trust land is assigned to a specific trust. As explained in the following subsection, distribution of revenues is handled in three different ways, depending on the section of trust land that generated the revenue.

In addition to state trust land, the TLMD also utilizes some General Fund dollars to administer land for the MSU-Morrill Grant lands and other state agencies. Revenue generated from other agency land is transferred directly to the appropriate state agency.

## Common Schools, Universities, and Other Trusts

The distribution of revenues generated from Common Schools trust land is illustrated in Figure 3. From the distributable receipts, a small percentage is used to fund the Resource Development Account, the Timber Sale Account, the Recreational Use Account, and the Commercial Leasing Account (see Table 1). Ninety-five percent of the remaining distributable revenue is distributed yearly to the state Guarantee Account for use by public schools of the state. The other 5 percent, together with nondistributable revenue, comprise the Permanent Fund. The interest earned on the Permanent Fund is also distributed to the Guarantee Account for use by public schools, with the exception of 5 percent, which is returned to the Permanent Fund for reinvestment.

Distribution of revenues to the university trusts and other trusts is similar to that of the Common Schools trust. The exception is the Montana State University Trust for the Morrill Grant, whose administrative costs are funded by the General Fund (House Bill 19, 2007 Legislature). For the University System Trusts, timber sale revenues are considered distributable and for the other trusts, nondistributable. The Public Buildings Trust does not have a permanent fund, so remaining receipts are distributed to the Department of Administration.

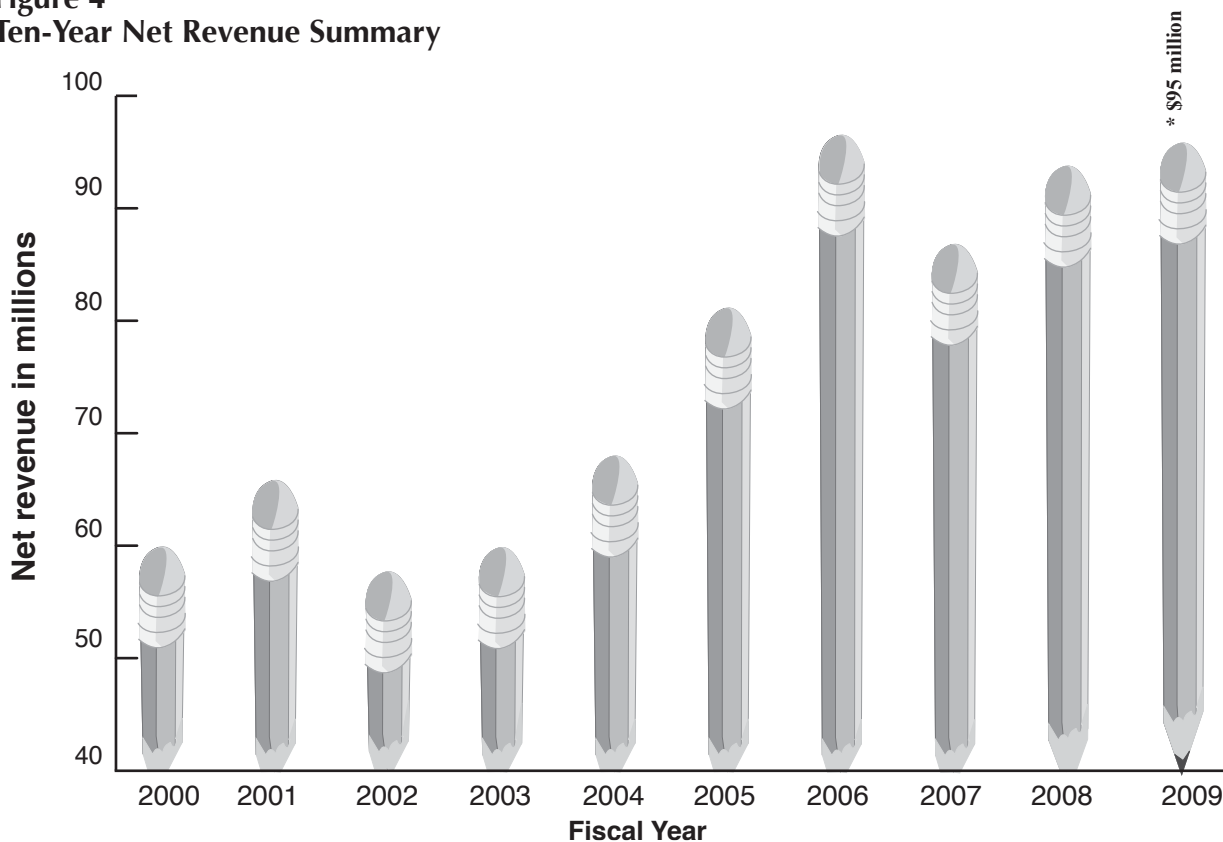
## Division Overview

The mission of the TLMD is to administer and manage the state trust timber, surface, and mineral resources for the benefit of the Common Schools and other endowed institutions in Montana, under direction of the Board of Land Commissioners. The Board of Land Commissioners, which is also known as the “State Land Board,” consists of Montana’s top elected officials:

- Brian Schweitzer, Governor
- Steve Bullock, Attorney General
- Denise Juneau, Superintendent of Public Instruction
- Linda McCulloch, Secretary of State
- Monica Lindeen, State Auditor

The division is divided into four primary programs: agriculture and grazing management, forest management, minerals management, and real estate management. Staff and program specialists in Helena and Missoula

**Figure 4**  
**Ten-Year Net Revenue Summary**



\*Excludes revenue from Land Banking Sales

provide program administration, direction, oversight, and support. Field personnel throughout the state provide on-the-ground management.

The department's obligation is to obtain the greatest benefit for the school trusts pursuant to 77-1-202, MCA. The greatest monetary return must be weighed against the long-term productivity of the land to ensure continued future returns to the trusts. Total gross revenues generated by the TLMD over the last five years are listed by activity in Table 4. This table contains not only trust revenues, but also those revenues collected for other state entities and the General Fund, revenues generated to fund appropriations, and other miscellaneous revenues collected by the division.

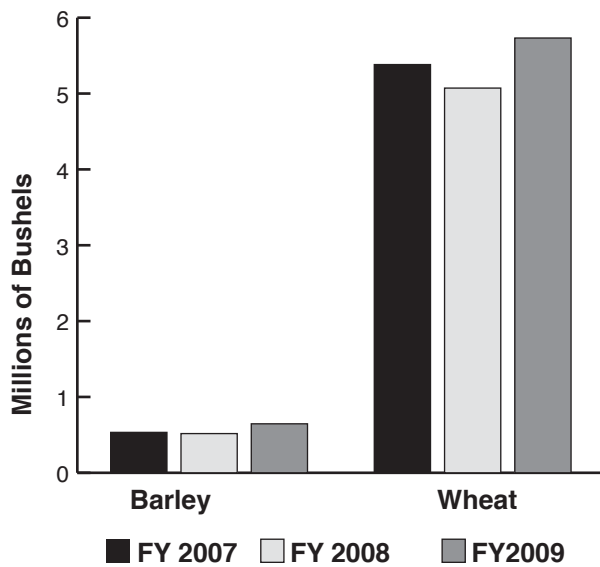
### **Ten-Year Net Revenue Summary**

Figure 4 reflects net revenue growth from FY 2000 to FY 2009. Revenues from land management activities were combined with interest income generated from the Permanent Fund investments less annual expenditures. As a result, net revenue from all income sources, excluding land banking increased from approximately \$59 million in FY 2000 to \$95 million in FY 2009.

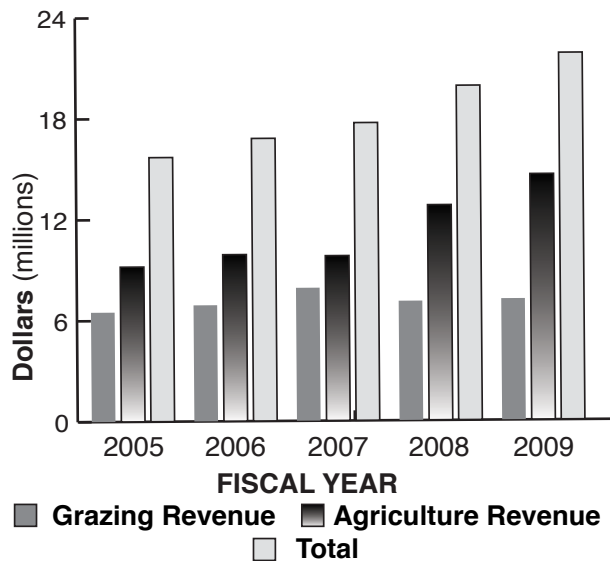
### **Agriculture and Grazing Management**

The Agriculture and Grazing Management Bureau supervises the management and leasing of approximately 10,000 agreements for crop and range land uses on 4.65 million acres of school trust lands throughout the state. Administrative staff and specialists in the department's Helena office and staff in field offices statewide accomplish these duties.

**Figure 5**  
**Barley and Wheat Production**



**Figure 6**  
**Agricultural and Grazing Revenue**



## Surface Leasing

The program is responsible for administrative functions associated with maintaining surface lease agreements. Annual activities include processing approximately 1,000 lease renewals; advertising, competitively bidding, and issuing approximately 11 new leases; reviewing and processing assignments, subleases, pasturing agreements, custom farming agreements, pledges, and mortgages; and collecting, verifying, and posting rentals and fees.

## Land Management

The program manages the agricultural and grazing resources on lands administered by the bureau. This responsibility includes evaluation and assessment of range and crop land condition; compliance with the Montana Environmental Policy Act (MEPA); administration of archaeological, paleontological, and historical properties on state trust land; investigations of lease noncompliance; participation in the federal Farm Program; and oversight of water developments, water rights, and improvement projects such as range renovation and resource development.

## Agricultural and Grazing Lands

Currently, 3,000 agreements cover agricultural use of state trust lands. Crops raised on these lands are primarily dry land hay and small grains, but also include irrigated grain crops, corn, sugar beets, potatoes, peas, lentils, garbanzo beans, canola, safflower, alfalfa seed, and native grass seed (See Figure 5).

In FY 2009, revenues totaling \$14,650,880 were received from agricultural leasing on 571,000 acres (see Figure 6). The majority of the leases are on a crop-share basis with the minimum share of 25 percent set by statute. In addition to receiving rental payments from lessees, the state participates in and receives Farm Program payments from the U. S. Department of Agriculture (USDA) Farm Service Agency. For FY 2009, this amount exceeded \$2.9 million for direct payment contracts, and lands enrolled in the Conservation Reserve Program (CRP).

Approximately 8,500 agreements include grazing use of trust lands. The 4.3 million acres of classified grazing lands and forest lands have an estimated carrying capacity of 978,462 animal-unit-months (AUMs). The minimum rental rate (\$6.97/AUM) for grazing leases is set by a formula, which includes the average weighted price for beef cattle sold in Montana during the previous year. In FY 2009, grazing leases generated \$7,163,795.

## Recreational Use

The total number of wildlife conservation licenses sold in FY 2009 was 461,307, which generated \$922,613 in gross revenue. A total of 8,136 general recreational use licenses were sold with gross revenues of \$82,176. Special recreational use licenses generated \$85,839.

## Forest Management

*Sustainably managing Montana's forested trust lands to maximize long-term revenue while promoting healthy and diverse forests.*

The Forest Management Bureau oversees the management of approximately 730,000 acres of forested state trust lands. Revenue from these lands is mainly derived from the sale of forest products. This requires the teamwork of 72 bureau and field staff.

The State Forest Land Management Plan (SFLMP), approved by the State Land Board in 1996 and associated rules (2003), guide the management of forested trust lands. This guidance is provided in the form of a general management philosophy and specific resource management standards. The strategic guidance provided by the SFLMP is summarized in this excerpt:

*Our premise is that the best way to produce long-term income for the trust is to manage intensively for healthy and biologically diverse forests. Our understanding is that a diverse forest is a stable forest that will produce the most reliable and highest long-term revenue stream. Healthy and biologically diverse forests would provide for sustained income from both timber and a variety of other uses. They would also help maintain stable trust income in the face of uncertainty regarding future resource values. In the foreseeable future timber management will continue to be our primary source of revenue and primary tool for achieving biodiversity objectives.*

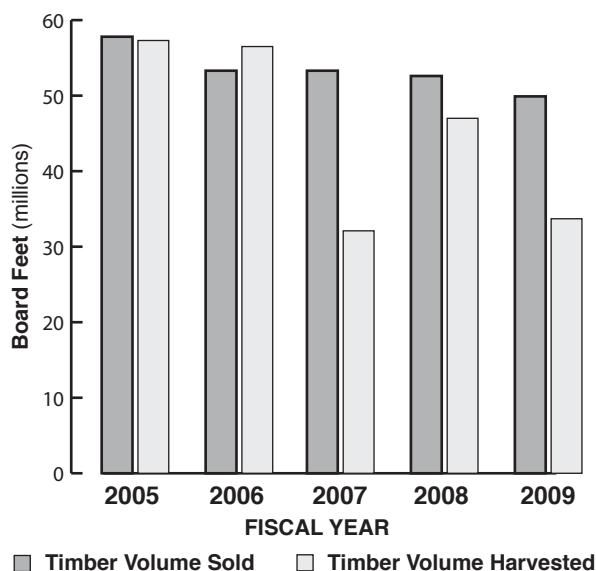
## Forest Product Sales

The forest product sales program incorporates activities and expenditures required to grow, harvest, and sell forest products from state trust lands efficiently. All timber sales and permits are developed, analyzed, and reviewed in the field by foresters and resource specialists to ensure that sales comply with all applicable laws, policies, and management direction.

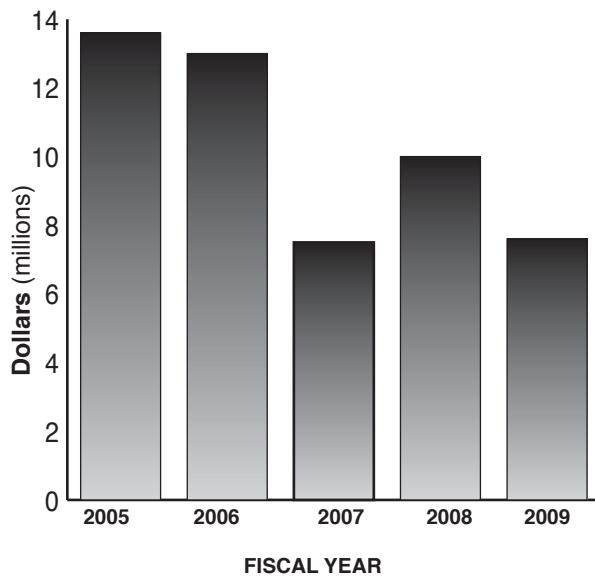
The current annual sustained yield from forested trust lands is 53.2 million board feet as determined by the 2004 Sustained Yield Study.

In FY 2009, 21 timber sales (47.7 million board feet) and 46 timber permits (2.2 million board feet) totaling 49.9 million board feet were sold (see Figure 7). This sold volume has an estimated stumpage value of \$6,286,307 and an additional estimated value of \$1,405,103 in forecasted Forest Improvement fees. Two additional timber sales,

**Figure 7**  
**Timber Volume Sold and Harvested**



**Figure 8**  
**Timber Revenue Generated**



totaling 2.3 million board feet, were prepared and offered for sale, but did not receive bids.

A total of 33.7 million board feet of timber (sale and permit volume) and a minor amount of other miscellaneous forest products (post & poles, boughs, biomass, etc.) were harvested from state trust lands during FY 2009. This volume generated \$7,584,556 revenue for the year (see Figure 8). An additional \$868,511 in Forest Improvement fees was collected during FY 2009.

Total volume and value from harvest activities on forested trust lands in FY 2009 decreased significantly from FY 2008. This was largely due to timber sale purchasers curtailing harvesting activity in 2009 in response to soft market conditions. Timber sale purchasers have up to 3 years to harvest a timber contract.

The average price per thousand board feet for volume harvested in FY 2009 was \$225 compared to \$209 in FY 2008 and \$231 in FY 2007, respectively. Due to historically poor market conditions, the average price received for volume sold in FY 2009 fell to \$126 per thousand board feet compared to \$180 in FY 2008 and \$236 in FY 2007, respectively.

### Forest Improvement

The Forest Improvement Program uses fees from harvested timber to improve the health, productivity, and value of forested trust lands. Use of these fees authorized by statute include disposal of logging slash, reforestation, acquiring access and maintaining roads necessary for timber harvest, other treatments necessary to improve the condition and income potential of state forests, and compliance with other legal requirements associated with timber harvest. In FY 2009, the department collected \$868,511 in Forest Improvement fees. Table 5 shows the amount of Forest Improvement fees collected during FY 2009 by trust.

<b>Table 5</b>	
<b>FY 2009 Forest Improvement Fees Collected by Trust</b>	
<b>Trust</b>	<b>Amount</b>
Common Schools	\$653,462
Montana State University – Second	33,231
Montana Tech	18,634
State Normal School	5,023
School for the Deaf and Blind	11,151
State Reform School	358
Public Buildings	146,652
<b>Total</b>	<b>\$868,511</b>

Table 6 lists the activities conducted to improve the health and productivity of forested state trust lands. Under the reciprocal access and cost share programs, the state received 58.36 miles of right-of-way and granted 8.07 miles across state trust lands. This cooperative exchange of access with other parties allowed the state to gain new access to 19,894 acres of state trust land.

**Table 6**  
**FY 2009 Forest Improvement Accomplishments Trust Land Summary**

Activity	Units	Common Schools	University of Montana	Montana Tech	State Normal School	State Reform School	School for Deaf & Blind	MSU - Morrill	MSU 2nd Grant	Public Buildings	Total
Plantation regeneration surveys	acres	840	0	10	0	0	0	0	72	90	1,012
Tree planting	acres	447	0	0	0	0	0	0	631	500	1,578
Tree browse prevention <sup>1</sup>	acres	364	0	120	0	0	0	0	281	321	1,086
Precommercial thinning	acres	996	0	45	0	40	0	0	0	15	1,096
Noxious weed spraying	acres	2,290	0	85	56	35	52	9	4,705	469	7,702
Brush piling	acres	622	0	0	0	28	113	101	18	85	967
Pile burning	acres	3,117	0	0	36	13	530	125	147	482	4,450
Broadcast burning	acres	248	0	0	0	0	0	0	0	0	248
Tree improvement areas managed	acres	36	0	0	0	0	0	0	0	0	36
Road maintenance <sup>2</sup>	miles	74	0	9	0	0	1	0	2	10	97
Hand brush work	acres	66	0	0	0	0	0	0	0	6	72
Bio-control Bug Releases	acres	133	0	300	0	0	0	0	0	0	433
Roads Inventoried and Database updated	miles	160	0	42	0	0	0	0	0	47	249

1. Tree browse prevention includes replacing, maintaining, or removing seedling netting, or applying a chemical repellent.
2. Road maintenance includes grading, snowplowing, bridge removal and upkeep, installing culverts, etc. Many of these activities do not lend themselves to reporting by miles.

## **Habitat Conservation Plan**

The Forest Management Bureau is developing a programmatic Habitat Conservation Plan (HCP) in cooperation with the U.S. Fish and Wildlife Service. This series of conservation strategies is designed to minimize the impacts of DNRC management activities on threatened or endangered fish and wildlife species, while providing DNRC with long-term management assurances and overall flexibility. The Draft HCP/ EIS has been published and distributed to interested parties. Public open-house meetings have been held in Kalispell, Helena, Missoula, and Great Falls. The public comment period ended October 9, 2009. Completion of the HCP Final EIS is anticipated at the end of 2010.

## **Forest Inventory/GIS**

The Forest Inventory and GIS Program is managed by the Technical Services Section and is responsible for collection and analysis of forest resource inventory data on 730,000 acres of forested state trust lands. Stand-level resource data and the development and maintenance of a geographic information system (GIS) are used to support planning for forest management activities, environmental analyses, sustainable yield calculations and other activities and studies.

Each year the Technical Services Section processes and updates changes to the stand-level inventory data layer, road layer, and other GIS layers. In FY 2009, the inventory program collected 42,900 acres of stand-level inventory data, updated the stand map by collecting data for 64 timber sales and 51 permits, collected tree data for 850 plots in 65 stands, and moved the entire road database into the format for the enterprise database allowing linkage to information on easements, maintenance, cost-sharing, etc. in the GIS.

In addition, the Technical Services Section has built a spatial database, hosted by ITSD, that can be used to centrally view, edit, and store all TLMD's GIS data.

## **Resource Management**

The Resource Management Section (RMS) provides technical assistance to field staff in the disciplines of hydrology, soils, geology, fisheries, wildlife, sensitive plants, road engineering, and riparian grazing. Technical assistance provided by the section staff includes field reviews, project analysis, Montana Environmental Policy Act (MEPA) document preparation, recommendation and design of mitigation measures and other contract provisions, and timber sale document review. The RMS also reviews, evaluates, and monitors activities on forested trust lands to ensure compliance with applicable laws, rules, and policies and maintains appropriate levels of resource protection.

In FY 2009, the RMS provided technical assistance on 20 timber sales and 3 other land management projects affecting trust lands, and conducted 58 different wildlife, fisheries, soil, and watershed monitoring projects on forested state trust lands. Five stream restoration projects addressing fish passage were also initiated or completed during the year.

## Minerals Management

The Minerals Management Bureau is responsible for leasing, permitting, and managing approximately 4,990 oil and gas, metalliferous and nonmetalliferous, coal, and sand and gravel agreements on nearly 2.1 million acres of the available 6.2 million acres of school trust land and approximately 5,759 acres of other state-owned land throughout Montana. General background information on bureau activities is available on the department's website: [www.dnrc.mt.gov/trust/mmb/](http://www.dnrc.mt.gov/trust/mmb/).

A calendar of key lease activities and dates is posted, and lease sale lists and sale results are available for viewing and downloading.

### Mineral Leasing

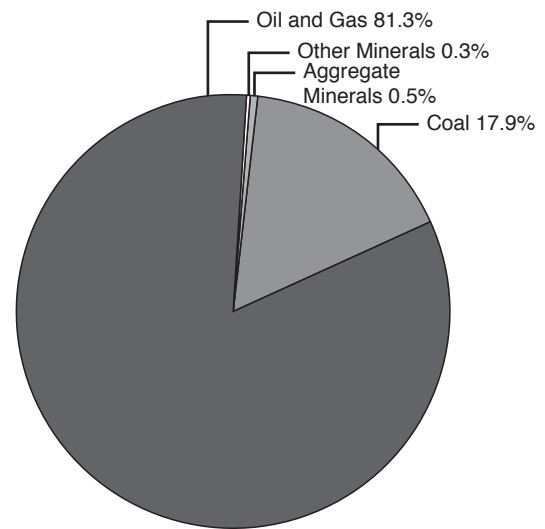
The program is responsible for reviewing and processing all mineral lease and permit applications; advertising, competitively bidding, and issuing new leases; reviewing and approving lease assignments; and collecting, verifying, and posting lease rentals and production royalties. Revenues received in FY 2009 are listed in Table 4; the relative percentage of revenue derived from each mineral type is illustrated in Figure 9.

### Oil and Gas Leasing

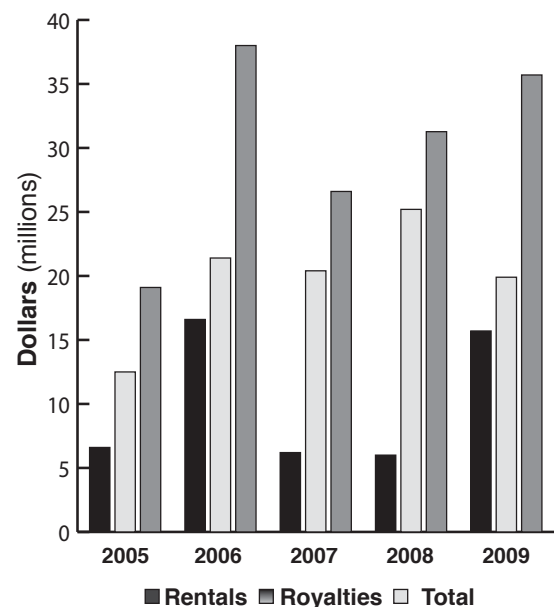
The program is responsible for the leasing and monitoring of 4,841 oil and gas leases, 617 of which are currently productive. The number of oil and gas leases managed is up 4.04 percent, while the number of currently producing leases increased by 1.8 percent, compared to FY 2008. Activities related to existing leases include collecting, verifying, and posting rental, royalty, delay drilling, and shut-in payments; reviewing and approving assignments and tracking working interest ownership; reviewing and preparing for approval communitization agreements and unit operating agreements; and coordinating with field offices the review and approval of all proposed physical operations on state leases. In addition, four oral auctions of new oil and gas leases are prepared and conducted each year.

In FY 2009, 1,661,685 barrels of oil were produced; 6,710,328 MCF (thousand cubic feet) of gas and 1,326,399 gallons of condensate were also produced. Oil production decreased 8.1 percent from FY 2008, and the average price decreased by 32.3 percent, to \$60.16 per barrel in FY 2009. Gas production in FY 2009 decreased 13.4 percent, while the price decreased 23.9 percent from FY 2008, for an average price of \$4.66 per MCF. As a result of record high oil and gas prices at the beginning of the fiscal year, the

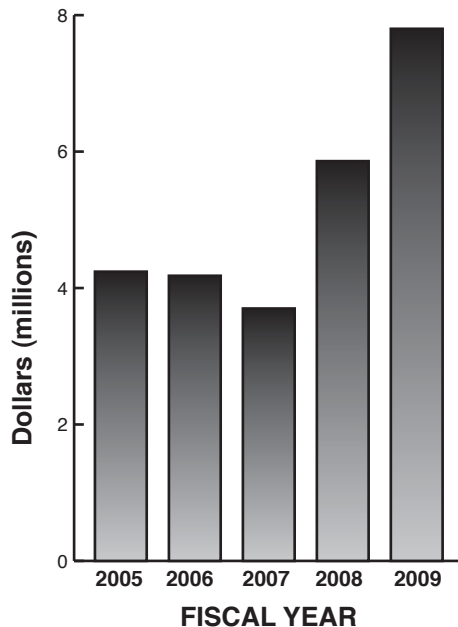
**Figure 9**  
**Total Mineral Revenue by Mineral Type**



**Figure 10**  
**Oil and Gas Revenue (excluding Seismic Exploration)**



**Figure 11**  
**Coal Royalties**



September 9, 2008 oil and gas lease sale yielded the highest total bid amount since 1980. The same sale resulted in the highest average bid per acre in the bureau's history. Oil and gas revenues received over the last five years are shown in Figure 10.

### **Other Mineral Leasing**

The program also administers a wide variety of leases, including metalliferous and nonmetalliferous leases, coal leases, gravel permits, and land use licenses for nonmechanized prospecting—for all other mineral activity on state trust land. In FY 2009, 5,603,917 tons of coal were mined, which is an 18.7 percent increase in production over FY 2008. The average price per ton increased 10.1 percent from FY 2008 for an average price of \$11.97 per ton. Royalties increased 33.7 percent compared to FY 2008. The volume mined can vary significantly from year to year, as mining activity moves onto or off state trust land within the normal sequence of mining operations. A five-year summary of coal royalties is shown in Figure 11. Royalties and rentals are also collected for minerals such as bentonite, clay, gold and associated minerals, peat, and shale.

### **Royalty Auditing and Accounting**

The royalty audit program provides additional revenue to the school trusts through programmatic audits. The program identifies royalty under- and over-reporting, rectifies discrepancies, and raises the level of voluntary compliance. Most audits have a single payor and involve multiple leases per audit.

Audit activity in FY 2009 continued to show improved levels of compliance. Seven audits were completed and two were closed with no audit adjustments. Seven audits have preliminary audit assessments of amounts due ranging from \$64,381 to \$671,321. An additional twelve audits are in progress.

### **Riverbed Leasing**

The Minerals Management Bureau continues its efforts to clarify title to the beds and islands of navigable rivers. Pursuant to statute, the state owns those lands below the low-water mark; islands and their accretions formed in the riverbeds after statehood; and abandoned channels formed by avulsion. Because two navigable rivers in Montana flow through areas with major oil and gas resources, the department has conducted numerous riverbed studies to determine and document state ownership of land. This process allows the state to take a progressive position in issues involving substantial royalties.

In FY 2009, the program managed 30,997.07 acres of leased riverbed and island tracts. These tracts provided the state with \$1,520,189 in oil and gas revenues while generating an additional \$1,151 from other mineral leasing activity. This same ownership review process is also becoming increasingly important in areas where surface development and/or use encounters beds, islands, and abandoned channels of navigable rivers. The department continues to work with state, federal, and private entities whenever ownership issues arise.

## Otter Creek Tracts

Norwest Corporation completed a leasing appraisal covering the state's unleased coal ownership in the Otter Creek project area. The department distributed the appraisal for public review pursuant to 77-3-312, MCA. The comment period was still open at FYE 2009. The Land Board will evaluate the appraisal and related public comments in FY 2010 and consider offering the state tracts for lease.

## Real Estate Management

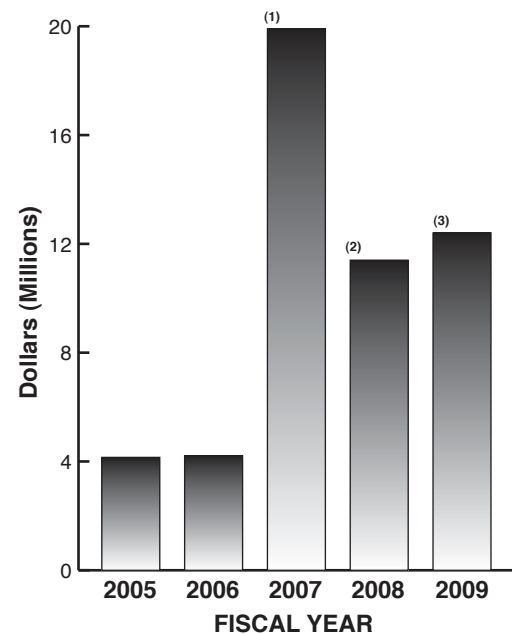
The Real Estate Management Bureau (REMB) administers activities on lands classified as "other" and all secondary activities on lands classified as grazing, agriculture, or timber. The sources of FY 2009 real estate management revenues are summarized in Table 4. Income over the last five years is illustrated in Figure 12.

For more information on the REMB, please visit the department's website at [www.dnrc.mt.gov/trust/remb/](http://www.dnrc.mt.gov/trust/remb/).

## Leasing/Licensing

Lease and License revenue for FY 2009 was \$6,623,364 and \$284,583 respectively as shown in Table 7. Residential leasing makes up the second largest portion of lease income with 762 residential leases generating nearly \$1.6 million in FY 2009. All lease income increased \$349,134 compared to FY 2008. Residential leasing revenue increased by \$135,185 over FY 2008.

**Figure 12**  
**Real Estate Management Revenues**



<b>Table 7</b> <b>FY 2009 Lease and License Revenues</b>			
<b>Agreement Type</b>	<b>2009 Lease Revenue</b>	<b>2009 License Revenue</b>	<b>Total 2009 Lease/License Revenue</b>
Community Facility	\$29,207	\$7,239	\$36,446
Commercial	429,489	25,739	455,228
Communication Sites	28,294	32,274	60,568
Conservation	91,310	1,527	92,837
Developed Recreation	142,266	30,838	173,104
Industrial	47,154	3,150	50,304
Institutional	7,878	0	7,878
Residential	1,574,691	4,980	1,579,671
Residential Accessory	5,585	27,444	33,029
Rural Commercial	5,357	9,961	15,318
Rural Industrial	70,143	129,359	199,502
Other Lease	20,340	12,072	32,412
River Structures	4,171,650	0	4,171,650
<b>Total</b>	<b>\$6,623,364</b>	<b>\$284,583</b>	<b>\$6,907,947</b>

## Land Sales

In FY 2009, the Land Banking program sold 11,793 acres for a total of \$5,150,084. Table 8 shows the acres sold in FY 2009 by county, classification, income, and rate of return. Table 9 shows the acres sold in FY 2009 by trust, classification, income, and rate of return.

## Land Acquisition

Three parcels totaling 7,294 acres were purchased through the Land Banking program in FY 2009, for \$6,401,000 (See Table 10).

Table 11 shows the Trust Land Acreage in each of the 56 counties by grant.

**Table 8**  
**Land Sold by County - FY 2009**

County	Acres	Value	Land Class	Annual Income	Return
Beaverhead	1,000	\$564,000	Grazing	\$1,532	0.27%
Blaine	1,280	324,450	Grazing	2,639	0.81%
Broadwater	181	181,000	Grazing	236	0.13%
Carbon	640	256,000	Grazing	544	0.21%
Chouteau	986	257,366	Grazing	1,932	0.75%
Custer	63	35,000	Grazing	77	0.22%
Fergus	161	63,000	Grazing	192	0.30%
Hill	484	132,100	Grazing	617	0.46%
Lewis & Clark	1,520	1,474,000	Grazing	2,626	0.18%
Liberty	597	149,453	Grazing	919	0.61%
Pondera	306	61,200	Grazing	718	1.17%
Teton	600	524,000	Grazing	2,288	0.44%
Toole	2,190	389,325	Grazing	3,331	0.86%
Wheatland	1625	668,790	Grazing	2,545	0.38%
Yellowstone	160	70,400	Grazing	411	0.58%
<b>Total</b>	<b>11,793</b>	<b>\$5,150,084</b>	<b>Overall weighted average</b>		<b>0.40%</b>

**Table 9**  
**Land Sold by Trust - FY 2009**

Trust	Acres	Value	Land Class	Annual Income	Return
Common Schools	8,280	\$3,548,409	Grazing	\$13,840	0.33%
MSU - Morrill	600	600,000	Grazing	1,377	0.23%
Public Buildings	1,714	605,185	Grazing	3,201	0.53%
Montana Tech	80	20,000	Grazing	172	0.86%
State Normal School	120	24,000	Grazing	739	3.08%
State Reform School (Pine Hills)	359	96,490	Grazing	651	0.67%
University of Montana	640	256,000	Grazing	823	0.32%
<b>TOTAL</b>	<b>11,793</b>	<b>\$5,150,084</b>	<b>Overall weighted average</b>		<b>0.40%</b>

**Table 10**  
**Tracts Acquired through Land Banking in FY 2009**

Tract	County	Acres	Classification	Purchase Price	Appraised Value	Annual Net Income	Estimated Rate of Return	Trust Allocation
<b>Tupper Lake</b>	Powell	1,777.67	Timber/Grazing	\$1,271,000	\$1,271,000	\$18,441	1.45%	Common Schools
<b>DeBruycker Farm</b>	Teton	5,211.98	Ag/Grazing	4,980,000	4,980,000	157,580	3.16%	Common Schools 4,284.28 acres; Public Buildings 320 acres; MSU-Morrill 607.7 acres
<b>Valentine Water Project</b>	Fergus	304.00	Grazing	150,000	150,000	1,493	1.00%	Common Schools
<b>Total</b>		<b>7,293.65</b>		<b>\$6,401,000</b>	<b>\$6,401,000</b>	<b>\$177,514</b>	<b>Average</b>	

**Table 11**  
**Trust Land Surface Acreage by County and Trust FY 2009**

COUNTIES	Common Schools	MSU- Morrill	MSU Second	Deaf & Blind School	Public Buildings	Montana Tech	State Normal School	State Reform School	Univ. of Montana	Veterans Home	Sir Trust	TOTALS
Beaverhead	258,249.42	11,128.56		6,300.23	24,516.47	5,439.03	15,266.86	12,258.68	-	-	-	333,159.25
Big Horn	60,398.31	-	-	-	-	-	-	-	-	-	-	60,398.31
Blaine	180,415.89	786.06	-	-	-	1,000.49	1,031.47	40.00	-	-	-	183,273.91
Broadwater	17,363.95	-	-	-	6,263.94	-	-	-	-	-	-	23,627.89
Carbon	33,459.62	3,577.93	-	-	-	-	-	3,248.81	-	-	-	40,286.36
Carter	143,402.62	-	-	-	440.00	228.37	27.75	141.06	-	-	-	144,239.80
Cascade	68,432.57	760.00	1,000.40	160.00	400.00	5,536.41	402.36	1,954.47	241.54	-	-	78,887.75
Chouteau	216,266.18	13,299.94	-	-	2,149.16	14,235.08	10,012.20	8,389.02	-	-	-	264,351.58
Custer	155,157.21	-	-	-	-	-	-	60.00	480.00	-	-	155,697.21
Daniels	216,423.49	-	-	-	-	-	3,897.40	-	-	-	-	220,320.89
Dawson	87,574.13	-	-	-	480.00	-	-	-	-	-	-	88,054.13
Deer Lodge	7,553.06	-	-	-	-	-	-	-	-	-	-	7,553.06
Fallon	70,752.64	-	-	-	-	-	-	-	-	-	-	70,752.64
Fergus	156,778.44	-	-	-	-	-	-	-	2,240.00	1,275.61	-	160,294.05
Flathead	72,459.09	3,385.25	11,941.39	5,336.88	17,221.98	9,224.04	9,205.01	1,308.65	-	141.91	-	130,224.20
Gallatin	28,578.36	-	455.47	2,577.44	7,828.87	5,879.98	2,097.22	642.32	1,918.91	-	-	49,978.57
Garfield	157,511.61	-	-	-	-	-	-	-	-	-	-	157,511.61
Glacier	8,338.91	-	-	-	-	-	-	-	-	-	-	8,338.91
Golden Valley	44,607.52	-	-	-	-	-	-	-	3,994.63	-	-	48,602.15
Granite	20,426.77	-	-	-	-	-	-	-	-	-	-	20,426.77
Hill	143,027.58	-	-	-	10,061.87	-	353.50	40.00	-	-	-	153,482.95
Jefferson	26,047.15	-	3,360.00	1,678.20	-	-	-	745.50	320.00	-	-	32,150.85
Judith Basin	94,057.18	480.00	-	-	-	3,268.93	160.00	-	640.00	-	-	98,606.11
Lake	50,643.64	40.00	320.00	1,131.70	160.00	1,535.56	960.07	-	247.54	-	-	55,038.51
Lewis & Clark	85,562.13	7,328.38	1,840.00	2,360.00	11,740.43	4,592.78	2,213.14	17,529.29	-	-	-	133,166.15
Liberty	86,141.78	-	-	-	156.14	-	-	-	-	-	-	86,297.92
Lincoln	54,324.19	-	-	-	10,562.07	480.00	-	-	-	-	-	65,366.26
McCone	94,562.19	-	-	-	-	-	-	-	-	-	-	94,562.19
Madison	99,758.90	635.95	3,881.60	2,920.28	9,659.19	1,993.92	7,512.63	6,438.90	320.00	-	-	133,121.37
Meagher	59,982.77	14,728.73	-	7,662.07	-	-	-	7,547.42	-	-	-	89,920.99
Mineral	7,462.22	-	2,478.33	-	8,038.28	-	3,955.78	-	-	-	-	21,934.61
Missoula	45,218.57	2,137.15	6,146.83	315.49	10,278.15	-	-	3,909.17	1,280.00	-	-	69,285.36
Musselshell	76,283.65	-	-	-	-	-	-	-	-	-	-	76,283.65
Park	32,586.12	-	-	-	-	-	-	-	880.00	-	-	33,466.12
Petroleum	62,190.29	-	-	-	-	-	-	-	1280.00	-	-	63,470.29
Phillips	189,865.89	360.00	-	-	-	-	-	-	-	-	-	190,225.89
Pondera	56,720.22	200.00	-	-	120.00	-	-	-	-	-	-	57,040.22
Powder River	141,638.67	480.00	-	-	-	-	695.10	-	-	-	-	142,813.77
Powell	58,827.41	157.69	-	-	2,997.58	-	-	356.00	156.67	-	-	62,495.35
Prairie	76,698.56	-	-	-	-	-	-	-	-	-	2,599.88	79,298.44
Ravalli	20,019.44	1,200.00	-	-	5,664.04	3,278.02	40.00	-	-	-	-	30,201.50
Richland	81,792.14	-	-	-	604.39	-	-	-	-	-	-	82,396.53
Roosevelt	18,879.25	-	-	-	1,431.02	-	-	-	-	-	-	20,310.27
Rosebud	175,889.17	-	-	-	-	-	-	-	2,213.74	-	-	178,102.91
Sanders	51,058.26	-	-	2,158.58	12,913.41	-	40.00	-	-	-	-	66,170.25
Sheridan	45,146.80	-	-	-	-	-	-	-	-	-	-	45,146.80
Silver Bow	13,234.07	-	-	-	-	-	-	-	-	-	-	13,234.07
Stillwater	46,073.97	-	-	-	-	-	-	-	-	-	-	46,073.97
Sweet Grass	47,887.26	-	-	-	-	-	-	-	-	-	-	47,887.26
Teton	77,283.45	2,777.94	-	-	22,276.37	2,627.46	3,378.40	240.00	-	-	-	108,583.62
Toole	77,867.59	-	-	-	19,721.11	40.00	-	-	-	-	-	97,628.70
Treasure	35,319.78	-	-	-	-	-	-	-	480.00	-	-	35,799.78
Valley	217,325.80	-	-	-	-	-	1,033.92	-	-	-	-	218,359.72
Wheatland	63,861.42	-	-	3,859.96	-	-	1,120.00	2,326.48	640.00	-	-	71,807.86
Wibaux	33,801.43	-	-	-	-	-	-	-	-	-	-	33,801.43
Yellowstone	73,923.94	-	-	-	-	-	-	-	-	-	-	73,923.94
<b>TOTALS</b>	<b>4,625,112.67</b>	<b>63,463.58</b>	<b>31,424.02</b>	<b>36,460.83</b>	<b>185,684.47</b>	<b>59,360.07</b>	<b>63,402.81</b>	<b>67,175.77</b>	<b>17,333.03</b>	<b>1,417.52</b>	<b>2,599.88</b>	<b>5,153,434.65</b>
<b>Original Acres</b>	<b>(5,188,000.00)</b>	<b>(90,000.00)</b>	<b>(50,000.00)</b>	<b>(50,000.00)</b>	<b>(182,000.00)</b>	<b>(100,000.00)</b>	<b>(100,000.00)</b>	<b>(50,000.00)</b>	<b>(46,080.00)</b>	<b>(1,275.61)</b>	<b>0.00</b>	<b>5,857,355.61</b>

Note: Variations in acreage occur annually as a result of active Land Banking and Land Exchange programs. Other minor variations in acreage in the Common School trust results from the issuance of easements and licenses upon navigable waterways.

## Land Exchanges

Two land exchanges were completed during FY 2009:

**Lyman Creek**—acquired 368 acres from the Montana Fish, Wildlife, and Parks in the Sula State Forest for 240 acres in the Calf Creek and Three Mile Wildlife Management Areas (WMA) in Ravalli County.

**Goguen**—acquired 632 acres of forest land and a commercial office condominium located in Whitefish, in exchange for 435 acres in Flathead County.

Four land exchanges are in various stages of completion:

**Coffee Creek**—exchange to be completed early FY 2010. Eighty acres of agriculture and grazing land for the same amount of trust land in Fergus County.

**Lolo**—potential to acquire 11,336 acres of national forest land for the same amount of trust land acreage in Granite, Powell, Missoula, Mineral, and Sanders counties.

**Confederated Salish & Kootenai Tribe—Jocko exchange**—potential to acquire 514 acres of unrestricted tribal land outside the Flathead Reservation, for 640 acres of restricted trust land in the Jocko Primitive Area in Missoula County.

**Confederated Salish & Kootenai Tribe—Lozeau exchange**—potential to acquire 5,557 acres of unrestricted tribal land outside the Flathead Reservation, for 1,772 acres of restricted trust land in the Lozeau Special Management Area in Flathead and Sanders counties.

## Non-Trust Land Activity

The department facilitated the following transactions involving other state agency lands in FY 2009:

### Department of Commerce

- Transfer of the Great Plains Dinosaur Museum from Department of Commerce to the City of Malta.

### Department of Corrections

- Acquisition of privately-owned lot adjacent to the Women's Prison in Billings.

### Department of Justice

- Administrative transfer of Department of Corrections land adjacent to the Montana Law Enforcement Academy in Helena to Department of Justice.

### Department of Military Affairs

- Sale of a street easement across the Hamilton Armory property to the City of Hamilton.

### **University System**

- Land exchange between private party and Montana Tech in Butte.

### **Spring Prairie Center**

- Spring Prairie Commercial Center development of Phase III has been delayed due to the downturn in the commercial real estate market.
- Pad development in Phases I and II along Highway 93 continue and the latest tenant, Mednorth Urgent Care has opened.
- The new DNRC/DEQ co-located office building along Stillwater Road was completed July 2009 and is fully occupied.
- The joint City/County 911 Center purchased an easement and began construction on the facility, which is expected to open in the spring of 2010.

### **Whitefish Area Trust Lands Neighborhood Plan**

- The Goguen land exchange was completed in FY 2009 and residential lot and trail development obligations are in progress.

### **Wind Energy**

Montana's first large-scale wind farm, the 135 MW, 90-turbine Judith Gap Wind Farm owned by Invenergy, entered into its third full year of operation. The FY 2009 payment from Invenergy was \$57,142. Thirteen of the 90 towers at the Judith Gap wind farm are on Common Schools trust land (640 acres).

- Additional wind farms are in the process of being developed on trust land. MEPA review of the Horizon Wind Energy Martinsdale wind farm was completed and a record of decision released April 29, 2009. A lease for the project will be signed in early FY 2010 with construction on the 58 MW project beginning by spring 2010.
- The Springdale wind farm is currently in the process of finalizing an environmental impact statement to satisfy MEPA requirements. The finalized EIS is expected in fall 2009. This 81.2 MW public/private wind farm will include eight 1.8 MW turbines located on one section of state trust land within a total buildout of 2,400 acres.
- The Norris Wind Farm is working toward completion of Phase 2 of its request for proposals response. Madison Valley Renewable Energy LLC's (MVRE) RFP response proposed to use school trust lands in a portion of its 14,000-acre wind farm project. The whole wind farm size is projected at 150 megawatts. The agreement with the DNRC indicates MVRE will pay a rental of 3.1% of the wind farm's electrical generation revenues on 4,280 acres of school trust lands.
- In March 2009 the DNRC released a request for proposals for the Surprise Creek wind farm near Stanford, Montana. The

awardee, Horizon Wind Energy is conducting due diligence on the 3,200 acre site and work will begin on a MEPA environmental document in FY 2010.

### **Rights-of-Way/Easements**

There were 347 rights-of-way applications presented to the Board of Land Commissioners for approval in FY 2009. Of these requests, 228 were historic easement applications submitted under 77-1-130, MCA. The department reviewed and processed more routine utility and access applications in this fiscal year, which resulted in lower revenues. No large scale projects were identified for placement on state trust lands under easement procedures.

However, several public use easements were issued, including a joint easement granted to the City of Belgrade and the School District for \$83,190; a sewage irrigation system easement for the Town of Twin Bridges in the amount of \$49,308; a public recreation trail easement to the City of Whitefish in the amount of \$28,978 and an easement to Flathead County for a green-box container site that netted \$32,860.

### **Real Estate Management Programmatic Plan**

In December of 2008, Administrative Rules were adopted, which implemented the requirements of the Real Estate Management Programmatic Plan under ARM 36.25.901 through 36.25.918.

## **Restoration Activities**

### **Agriculture and Grazing Management Activities**

- Completed river restoration work at the Nye Bridge site and designed a restoration plan on White Bird Creek on trust land.
- Spot or boom sprayed herbicide on approximately 20 acres for control of Spotted Knapweed, Houndstongue, Canada Thistle, and Whitetop in Ravalli, Pondera, and Lewis and Clark counties.
- Collected approximately 18 releases of *Oberea Erythrocephala* for release on state lands for control of Leafy Spurge.

### **Forest Management Activities**

- Completed surveys and fish passage designs for 6 stream crossing structures.
- Developed Swede Creek Native Fish Conservation Project—one fish passage culvert re-installed.
- Developed Chicken Creek Native Fish Conservation Project—one fish passage culvert re-installed and one crossing structure removed and reclaimed.
- Developed Whitetail Native Fish Conservation Project—one crossing removed and reclaimed, and re-installation of designed barrier crossing.
- Completed maintenance of Blanchard Creek Stream Restoration Project at the Clearwater Unit.

## Montana Universities – Trust Lands

By the Enabling Act of 1889, the United States Congress granted acreage to the state of Montana for the support of Common Schools (K-12 public schools) and other educational and state institutions, including the Montana University System.

The State of Montana has five university trust beneficiaries as follows:

- University of Montana
- Montana State University–Morrill Grant
- Montana State University–Second Grant
- Montana Tech of the University of Montana
- State Normal School (Montana State University–Billings and the University of Montana–Western at Dillon)



Authority for establishing these trusts is included in sections 14, 16, and 17 of the Enabling Act of 1889 and in the Morrill Act of 1862 and 1890, for the Montana State University Morrill Lands. The following excerpt is taken from the Second Annual Report of the State Board of Land Commissioners for the year 1892:

Table 12 University System Original Grant Acreage	
Institution	Original Grant Acres*
Montana Tech (School of Mines)	100,000
State Normal School	100,000
Agricultural College	
MSU – Morrill Grant	90,000
MSU – Second Grant	50,000
University of Montana	46,080
*Figure 13 displays current acreage by institution	

*“The grants of land made by the Congress of the United States to the State of Montana as provided in the Act of February 22, 1889, entitled, ‘An Act to provide for the division of Dakota into two states, and to enable the people of North Dakota, South Dakota, Montana and Washington to form constitutions and state governments and to be admitted into the Union on an equal footing with the original states,*

*and to make donations of public lands to such states.’” (shown in Table 12)*

*Section 14: “That the lands granted to the territories of Dakota and Montana by the act of February eighteenth, eighteen hundred and eighty-one, entitled ‘An act to grant lands to Dakota, Montana, Arizona, Idaho and Wyoming for university purposes,’ are hereby vested in the states of South Dakota, North Dakota, and Montana, respectively, if such states are admitted into the union, as provided in this act, to the extent of the full quantity of seventy-two sections to each of said states...”*

*Section 16: “That ninety thousand acres of land, to be selected and located as provided in section ten of this act, are hereby granted to each of said states” ... “for the use and support of agricultural colleges in said states, as provided in the acts of congress making donations of lands for such purpose.”*

*Section 17: “To the state of Montana: For the establishment and maintenance of a school of mines, one hundred thousand acres; for state normal schools, one hundred thousand acres; for agricultural colleges, in addition to the grant herein before made for that purpose, fifty thousand acres.”*

### University System Trust Land Acreage

The total acreage for all trusts has fluctuated through the years due to land sales and acquisitions. The acreage for each university is shown in Figure 13. Surface acreage at the end of FY 2009 for the five trusts totaled 234,984 (or 4.6% of the total acreage) and 327,955 mineral acres (5.2%). Mineral acreage exceeds surface acreage because the mineral estate has been retained when lands were sold.

### The Permanent Fund

Table 13 shows the University System Permanent Fund Balances from FY 2005 to FY 2009 by trust. The balance at the end of FY 2009 was \$25,491,435.

**Figure 13**  
**University System Acres by Trust FY 2009**

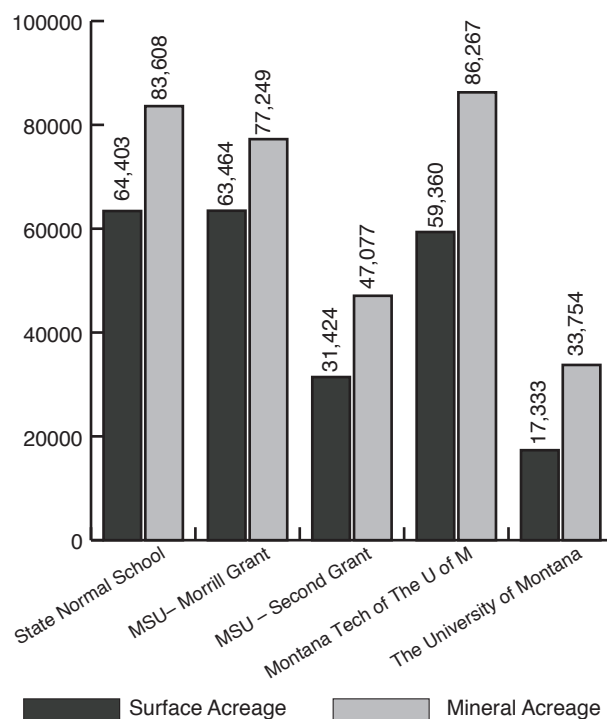


Table 13 University System Permanent Fund Balances FY 2005 – FY 2009					
Trust	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
The University of Montana	\$1,499,962	\$1,500,943	\$1,503,459	\$1,522,270	\$1,523,365
MSU-Morrill Grant	3,586,237	3,646,386	3,699,000	3,949,873	3,927,042
MSU-Second Grant	8,472,888	8,475,519	8,774,218	8,775,215	8,845,963
Montana Tech	4,545,537	5,044,678	5,060,421	5,098,100	5,101,605
State Normal School	6,003,215	6,061,334	6,072,051	6,084,590	6,093,459
<b>Total</b>	<b>\$24,107,839</b>	<b>\$24,728,860</b>	<b>\$25,109,149</b>	<b>\$25,430,048</b>	<b>\$25,491,434</b>

### Revenues

Total gross revenues generated by the TLMD over the last four years are listed by activity in Table 14. This table contains not only trust revenues, but Forest Improvement Fees and revenues generated to fund appropriations. During FY 2009, more than \$3.8 million was generated in gross revenues from land management activities and investment interest.

### Distribution of Revenues

Table 15 shows the distributable and nondistributable interest and income for each of the University System trust beneficiaries. In FY 2009, the division used a portion of trust land revenues to fund administrative appropriations. From the distributable receipts, a small percentage is used to fund the Resource Development Account, the Timber Sale Account, the Recreational Use Account, and the Commercial Leasing Account. The exception is the Montana State University Trust for the Morrill Grant, which

**Table 14**  
**Gross Revenue Generated by Activity for the University System FY 2009**

<b>Activity</b>	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>
<b>Agriculture &amp; Grazing Management</b>				
Grazing Leases	\$306,865	\$345,962	\$321,074	\$316,418
Agriculture Leases	292,439	301,953	356,786	380,938
<b>Totals</b>	<b>\$599,304</b>	<b>\$647,915</b>	<b>\$677,860</b>	<b>\$697,356</b>
<b>Recreational Use</b>				
General Licenses	\$5,374	\$6,995	\$3,931	\$3,748
Conservation Licenses	40,911	39,004	41,335	42,348
Special Rec. Use Licenses	12,240	988	0	0
<b>Totals</b>	<b>\$58,525</b>	<b>\$46,987</b>	<b>\$45,266</b>	<b>\$46,096</b>
<b>Forest Management</b>				
Timber Sales	\$1,021,531	\$723,904	\$865,671	\$199,764
Forest Improvement Fees	509,011	62,028	119,981	56,888
<b>Totals</b>	<b>\$1,530,542</b>	<b>\$785,932</b>	<b>\$985,652</b>	<b>\$256,652</b>
<b>Minerals Management</b>				
Oil & Gas Revenues				
Rentals/Bonuses/Penalties	\$186,386	\$106,779	\$153,763	\$326,297
Royalties	66,339	48,756	60,348	61,861
Aggregate Minerals				
Rentals/Bonuses	480	0	0	0
Royalties	250	0	0	6,589
Other Minerals				
Rentals/Penalties	30,673	9,655	15,201	0
Other	2,010	1,260	730	248
<b>Totals</b>	<b>\$286,138</b>	<b>\$166,450</b>	<b>\$230,042</b>	<b>\$394,995</b>
<b>Real Estate Management</b>				
Rights-of-way/Easements	\$582,877	\$369,163	\$140,268	\$4,543
Residential Leases/Licenses	695,538	800,957	903,933	984,510
Other Leases/Licenses	102,888	177,704	160,587	164,205
<b>Totals</b>	<b>\$1,381,303</b>	<b>\$1,347,824</b>	<b>\$1,204,788</b>	<b>\$1,153,258</b>
<b>Other</b>				
Trust and Legacy Interest	\$1,421,503	\$1,536,004	\$1,459,243	\$1,310,557
Other Revenues	0	1,725	1,800	1,866
<b>Totals</b>	<b>\$1,421,503</b>	<b>\$1,537,729</b>	<b>\$1,461,043</b>	<b>\$1,312,423</b>
<b>TOTALS</b>	<b>\$5,277,315</b>	<b>\$4,532,837</b>	<b>\$4,604,651</b>	<b>\$3,860,780</b>

**Table 15**  
**University System Revenues by Trust FY 2009**

<b>Distributable Revenues Trust</b>	<b>Gross Distributable Revenues</b>	<b>Resource Development</b>	<b>Timber Sale Account</b>	<b>Trust Admin. Account</b>	<b>Recreational Use Account</b>	<b>Commercial Leasing Account</b>	<b>Net Distributable Revenues</b>
University of Montana	\$218,091	\$4,084	\$21	\$0	\$375	\$346	\$213,265
MSU - Morrill Grant	634,673	0	12,705	0	1,249	0	634,673
MSU - Second Grant	1,181,006	16,576	82,897	0	654	1,289	1,079,590
Montana Tech	1,119,733	23,789	7,265	0	1,233	5,092	1,082,354
State Normal School	586,978	7,442	3,332	0	1,308	2,368	572,528
<b>Total</b>	<b>\$3,740,481</b>	<b>\$51,891</b>	<b>\$106,220</b>	<b>\$0</b>	<b>\$4,819</b>	<b>\$9,095</b>	<b>\$3,582,410</b>
<b>Nondistributable Revenues Trust</b>	<b>Gross Nondistributable Revenues</b>			<b>Trust Admin. Account</b>		<b>Net Nondistributable Revenues</b>	<b>Permanent Fund Balance</b>
University of Montana	\$1,001		\$0	\$156		\$845	\$1,523,365
MSU - Morrill Grant	55,369		0	8,644		55,369	3,927,042
MSU - Second Grant	2,250		0	351		1,899	8,845,963
MT Tech	4,154		0	649		3,505	5,101,605
State Normal School	9,970		0	1,556		8,414	6,093,459
<b>Total</b>	<b>\$72,744</b>		<b>\$0</b>	<b>\$11,356</b>		<b>\$70,032</b>	<b>\$25,491,434</b>
<b>TOTAL</b>	<b>\$3,813,225</b>	<b>\$51,891</b>	<b>\$106,220</b>	<b>\$11,356</b>	<b>\$4,819</b>	<b>\$9,095</b>	<b>\$25,491,434</b>

does not fund administrative cost accounts. These costs are paid by the general fund. Net distributable revenues for FY 2009 totaled \$3.6 million and net nondistributable revenues of \$70,032 were deposited in the various permanent trusts.

### Agriculture and Grazing Management

The Agriculture and Grazing Management Bureau supervises the management and leasing of agreements for crop and range land uses on University System trust lands across the state. Total gross revenues by trust for FY 2009 are shown in Table 16.

<b>Table 16 Agriculture and Grazing Revenues</b>				
<b>Trust</b>	<b>FY2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
University of Montana	\$82,442	\$85,948	\$86,198	\$93,219
MSU - Morrill	130,071	164,117	141,630	159,269
MSU - Second	20,718	22,303	20,479	20,040
Montana Tech	224,306	215,202	278,000	251,768
State Normal School	141,767	160,345	151,553	173,060
<b>Total</b>	<b>\$599,304</b>	<b>\$647,915</b>	<b>\$677,860</b>	<b>\$697,356</b>

### Agricultural and Grazing Lands

Crops raised on trust lands are primarily dry land hay and small grains, but also include irrigated grain crops, corn, sugar beets, potatoes, peas, lentils, garbanzo beans, canola, safflower, alfalfa seed, and native grass seed. Agricultural and grazing gross revenues of \$697,356 were generated in FY 2009 on University System lands (see Table 17).

<b>Table 17 University System FY 2009 Revenues and Production</b>								
<b>Trust</b>	<b>Grazing Revenue</b>	<b>Ag Revenue</b>	<b>Total Revenue</b>	<b>Wheat Bushels</b>	<b>Barley Bushels</b>	<b>Hay Tons</b>	<b>AUMs</b>	<b>CRP Acres</b>
University of Montana	\$27,405	\$65,815	\$93,220	43,046	0	649	3,188	124.6
MSU - Morrill	111,260	48,009	159,269	23,079	0	139	15,187	155.5
MSU - Second	17,945	2,095	20,040	0	0	46	2,473	0
Montana Tech	71,711	180,056	251,767	60,633	15,072	567	9,554	350.6
State Normal School	88,097	84,963	173,060	26,836	2,816	301	12,510	547.0
<b>TOTAL</b>	<b>\$316,418</b>	<b>\$380,938</b>	<b>\$697,356</b>	<b>153,594</b>	<b>17,888</b>	<b>1,702</b>	<b>42,912</b>	<b>1,177.7</b>

Agricultural trust lands are typically leased on a crop-share basis, with the minimum share of 25% set by statute. Table 17 shows production totals for wheat, barley and hay produced on university trust lands in FY 2009. Acreages enrolled in the Conservation Reserve Program (CRP) are also listed. This program pays landowners to remove erodible cropland from production and plant the land in permanent cover. Contracts are normally for ten-year periods. Table 17 also shows the carrying capacity of university grazing lands in terms of animal unit months (AUM). An AUM is the amount of forage necessary to support one animal unit (typically a cow/calf pair) for one month. The rental charged per AUM is set by a formula using prices received for beef.

## Forest Management

Forest management activities are managed in four sections; forest product sales, forest inventory, forest improvement and resource management.

**Table 18**  
**Timber Revenues FY 2006 – FY 2009**

Trust	FY 2006	FY 2007	FY 2008	FY 2009
University of Montana	\$110	\$620	\$50	\$40
MSU - Morrill	1,327	104,649	172,785	23,893
MSU - Second	658,738	560,577	675,941	155,900
Montana Tech	56,358	13,544	6,748	13,664
State Normal School	304,998	44,514	10,147	6,267
<b>Total</b>	<b>\$1,021,531</b>	<b>\$723,904</b>	<b>\$865,671</b>	<b>\$199,764</b>

## Forest Product Sales

During FY 2009, a total of \$199,764 in revenue was generated from timber permits and sales (Table 18) and \$967 thousand board feet was harvested from university trust lands (Table 19).

**Table 19**  
**Timber Volume Harvested by Trust in Thousand Board Feet (MBF)**

Trust	FY 2006	FY 2007	FY 2008	FY2009
University of Montana	0	0	0	0
MSU - Morrill	5	532	805	91
MSU - Second	1,977	2,206	5,050	816
Montana Tech	383	68	37	41
State Normal School	2,126	220	113	18
<b>Total</b>	<b>4,491</b>	<b>3,026</b>	<b>6,005</b>	<b>967</b>

## Forest Improvement

In FY 2009, the department collected \$56,888 in Forest Improvement fees from the university lands. Table 20 shows the amount of forest improvement fees collected between FY 2006 and FY 2009 by grant.

**Table 20**  
**Forest Improvement Fee Collections FY 2006 – FY 2009**

Trust	FY 2006	FY 2007	FY 2008	FY 2009
University of Montana	\$0	\$0	\$0	\$0
MSU - Morrill	0	0	0	0
MSU - Second	99,407	56,500	119,209	33,231
Montana Tech	89,248	1,249	50	18,634
State Normal School	320,356	4,279	723	5,023
<b>Total</b>	<b>\$509,011</b>	<b>\$62,028</b>	<b>\$119,981</b>	<b>\$56,888</b>

## Minerals Management

The Minerals Management Bureau is responsible for leasing, permitting, and managing oil and gas, metalliferous and nonmetalliferous, coal, and sand and gravel agreements. Table 21 shows gross mineral revenues from FY 2006 to FY 2009.

<b>Table 21 Mineral Revenue FY 2006 – FY 2009</b>				
<b>Trust</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
University of Montana	\$6,790	\$11,522	\$64,013	\$14,662
MSU - Morrill	204,109	95,618	98,430	253,103
MSU - Second	2,873	1,830	1,132	17,288
Montana Tech	48,064	38,557	47,627	75,931
State Normal School	24,303	18,923	18,840	34,011
<b>Total</b>	<b>\$286,139</b>	<b>\$166,450</b>	<b>\$230,042</b>	<b>\$394,995</b>

## Mineral Leasing

The program is responsible for reviewing and processing all mineral lease and permit applications; advertising, competitively bidding, and issuing new leases; reviewing and approving lease assignments; and collecting, verifying, and posting lease rentals and production royalties. Revenues by trust and activity are shown in Table 22.

<b>Table 22 Mineral Revenues by Trust and Activity for FY 2009</b>						
<b>Revenue</b>	<b>MSU Second</b>	<b>MSU Morrill</b>	<b>State Normal</b>	<b>Montana Tech</b>	<b>Univ of Montana</b>	<b>Total</b>
Oil & Gas Leases	\$15,038	\$17,918	\$21,970	\$25,253	\$13,411	\$93,590
Non-drilling Penalties		16,588	4,697	6,893		28,178
Mineral LULs				248		248
Oil & Gas Royalties		55,077	6,784			61,861
Sand & Gravel Royalties	2,250			3,088	1,251	6,589
Oil & Gas Bonus Payments		163,520	560	40,449		204,529
<b>Total</b>	<b>\$17,288</b>	<b>\$253,103</b>	<b>\$34,011</b>	<b>\$75,931</b>	<b>\$14,662</b>	<b>\$394,995</b>

## Real Estate Management

The Real Estate Management Bureau administers activities on lands classified as “other” and all secondary activities on lands classified as grazing, agriculture, or timber. In FY 2009, the University System trust land generated gross revenues of \$1,153,258 (See Table 23).

<b>Table 23 Real Estate Management Revenue by Trust FY 2006 – FY 2009</b>				
<b>Trust</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
University of Montana	\$9,628	\$34,825	\$45,116	\$29,441
MSU - Morrill	22,953	36,909	28,113	28,906
MSU – Second	397,807	792,231	572,247	529,483
Montana Tech	853,243	432,131	498,577	508,778
State Normal School	97,672	51,728	60,735	56,650
<b>Total</b>	<b>\$1,381,303</b>	<b>\$1,347,824</b>	<b>\$1,204,788</b>	<b>\$1,153,258</b>

# DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

1625 Eleventh Avenue  
P.O. Box 201601  
Helena, MT 59620-1601  
[www.dnrc.mt.gov](http://www.dnrc.mt.gov)

Persons with disabilities who need an alternative, accessible format of this document should contact DNRC at the address shown. Phone 406/444-2074 or fax 406/444-2684.

140 copies of this document were printed at an estimated cost of \$3.21 per copy. The total cost of \$449.00 includes \$449.00 for printing and \$0 for distribution.

Wheat field on school trust lands, Mc Cone County, July 2009.  
John Reddy photo.

